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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to KKR's fourth quarter 2017 earnings conference call. (Operator Instructions). As a reminder, this call is being recorded. I would like to hand the call over to Craig Larson, Head of Investor Relations for KKR. Craig, please go ahead.

Craig Larson - *KKR & Co. L.P. - Managing Director of IR*

Thank you, Glenda. Welcome to our fourth quarter 2017 earnings call. Thanks for joining us. As usual, I am joined by Bill Janetschek, our CFO, and Scott Nuttall, our Co-President and Co-COO. We'd like to remind everyone that we will refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release, which is available on the investor center section at KKR.com. The call will also contain forward-looking statements which do not guarantee future events or performance. Please refer to our SEC filings for cautionary factors related to these statements. And like previous quarters, we have posted a supplementary presentation on our website that we will be referring to over the course of the call. This morning we reported our Q4 and full-year 2017 results. The fourth quarter was a strong finish to a strong year for us. Let's begin by turning to page 2 of the supplement. We reported after-tax distributable earnings of $427 million for the quarter, or $0.52 on a per adjusted unit basis, and for the full-year after-tax DE came in at $1.6 billion, or $1.91 per adjusted unit. Fourth-quarter and full-year after-tax economic net income came in at $415 million and $2 billion, which translates into $0.48 and $2.38 of after-tax ENI per unit, respectively. We had a record fee-related earnings quarter, with $238 million of FRE, bringing full-year FRE to $867 million, which was up over 60% compared to 2016. This was driven both by the growth in management fees as well as continued strong performance within Capital Markets, as you will hear more about in a few minutes. And in terms of other metrics that we track closely, we experienced significant growth in 2017 in our AUM, up 30%, and our book value per unit, up 17%. These statistics are particularly important as they ultimately are going to drive the earnings power of the firm looking forward. Now, as we evaluate our performance overall, there are five things that we need to do well. We need to generate investment performance, raise capital, find attractive new investments, monetize existing investments and use our model to capture more economics from everything that we do. I'm going to update you on our progress on the first two and Bill is going to cover the remaining three. In terms of our investment performance, please take a look at page 3 of the deck that shows 2017 performance across our flagship funds. We had strong performance across our asset classes in 2017. In Private Equity, our three flagship funds appreciated 34% on a blended basis. Our Real Assets strategies are performing as well, with our more mature Real Estate, Infrastructure and Energy flagship funds up 12%, 15% and 9%, respectively. And in Credit, we saw strong performance in our Special Situations II and Mezzanine funds in particular. And finally, in terms of the balance sheet, our investment portfolio was flat for the quarter but for the year appreciated 12%. Turning to fundraising in the fourth quarter, we raised $16 billion of new capital. This includes commitments to our core investment strategy, which I will touch on in a moment, the final close of our second Real Estate and Opportunistic Private Credit funds, and inflows into CLOs as well as alternative credit SMAs. Looking at the full-year, you can see our progress on page 4 of the supplement. We've had strong organically-driven fundraising momentum with AUM and fee-paying AUM up 30% and 16%, respectively, for the year. These capital inflows contributed to $57 billion of dry powder at year-end, which is up nearly 20% from Q3. And as we note on page 4, we have approximately $20 billion of capital commitments that becomes fee-paying on an as-invested basis at a weighted average rate of approximately 100 basis points, providing direct line of sight towards future management fee growth. In terms of the drivers of AUM growth in 2017, there were really three main factors. The first is benchmark private equity fundraising activity. The strong performance we saw at NAXI and Asia II helped us to raise $22.5 billion of committed capital for the successor funds, Americas XII and Asia III. The second is the growth in scaling of our newer initiatives. Five years ago, we didn't have any dedicated real estate capital, but on the back of strong performance in our first fund today we have two real estate funds focused on the Americas, our European Fund, an opportunistic real estate credit fund, as well as a REIT that listed in May. We have made significant progress and we have several businesses that fit this profile. Finally, we have been active with a number of new strategic partnerships which are longer term in nature than our traditional funds. And let me expand on this last thought. In Q3, you will recall we finalized $7.5 billion of long-dated, multi-asset class partnerships with recycling. In Q4, we closed on $8.5 billion for our Core Investment strategy, including a $3 billion commitment from our balance sheet. As a reminder, our Core Investment business focuses on high quality investment opportunities in the private markets with longer estimated hold periods than our traditional fund investments. We closed on our first Core Investment in the second quarter of 2017 with an investment in USI, the insurance brokerage business, and in December we announced our second Core Investment in PetVet, an operator of veterinary hospitals. All told, these Strategic and Core Investment partnerships were responsible for about $16 billion of the $39 billion in new capital raised in 2017, and each have a fee and carry right on the third-party commitments. On the permanent capital front, today we have our REIT and our BDC, Corporate Capital Trust, which listed in November. Combined, they account for more than $5 billion of permanent capital from which we receive management and incentive fees and this will increase if and when we close the FS transaction that we announced in December. We expect the transaction, which accelerates the growth of our credit and capital markets platforms, to contribute an incremental $14 billion to our fee-paying AUM profile and should close midway through the year. At that time, we also expect an increase in annual run rate fees by at least $120 million. You can see on page 5 that our fundraising efforts have increased our AUM and driven greater diversification across strategies while maintaining attractive terms, as 80% off our AUM has the opportunity to earn performance fees. And the FS transaction, if and when it closes, will augment our credit assets by almost a third, which in turn will help increase our activity levels within our Capital Markets business, as Bill is going to talk about shortly. And with that, I will turn it over to Bill.

Bill Janetschek - *KKR & Co. L.P. - CFO*

Thanks, Craig. I will start with the third thing we need to do well, which is find new investment opportunities. We invested $3.5 billion across businesses and geographies in the fourth quarter. Public Markets deployment was $1.2 billion, coming primarily from investments made in our direct lending and Special Sit strategies. On the Private Market side, we invested $2.3 billion. The largest contributors were two European infrastructure investments out of Infra II. We also deployed $1 billion in Private Equity, with two-thirds invested in North America and the balance in Asia. For the full year, we deployed over $18 billion, with nearly $10 billion coming from Private Equity. We had our busiest year ever in Asia, investing over $3 billion, with a particular focus on Japanese corporate carve-out opportunities. We were also active in infrastructure, investing in several large transactions where we submitted fully financed offers, underwrote a portion of the debt and delivered significant co-invest opportunities to our infrastructure investors. Shifting to monetizations, we continue to see a sizable level of exit activity across our PE business. For the quarter, we exited our investments in Visma and Gland Pharma and completed a number of secondaries, including our final exit from US Foods, resulting in over $300 billion in cash carry. On a blended basis, the PE exits were done at 2.3 times our cost. Looking at the full year, our Private Equity funds distributed over $11 billion of capital to our investors, which in turn contributed to roughly $1.2 billion of realized carry. And finally, the last thing we need to do well is use our model of AUM, capital markets, and balance sheet, to capture greater economics for our investors and the firm from all of our activities. Please turn to page 6 of the supplement, which profiles the growth of our Capital Markets segment. Q4 was a record quarter for our Capital Markets business, generating $140 million in revenue. For the full year, revenue more than doubled, with the team executing over 190 transactions. KCM has continued to be active in all geographies, in debt and equity, and in financing and syndication for KKR-led and third-party investments. Page 7 of the supplement summarizes our core fundamentals across the five categories. The power of our model is evident in our results and we are pleased with the progress and momentum we are seeing across the firm. Before I turn it over to Scott, I want to briefly discuss our thinking on KKR's corporate structure. As you may have seen in the earnings release, we have announced that senior management and our board members are analyzing the potential impact of a conversion from our partnership structure today to a C Corp. So, what are some of the considerations? We've heard for some time that there are investors that find publicly traded partnerships difficult to own. And when we look at our shareholder base, our institutional ownership is lower than most traditional corporations, so we think there's an opportunity for us to appeal to a broader audience. Offsetting this are lower reported after-tax earnings. Our fee-related earnings, for the most part, are already taxed at the corporate tax rate so a change in our structure would most significantly impact our carried interest and investment income and whether these income streams are taxed at the corporate or the unitholder level. To try to help frame the numbers, if we restructured as a corporation and assumed the passage of tax reform at the beginning of 2017, we estimated our reported after-tax ENI would have been approximately 17% lower, or $1.98 per adjusted unit, compared to the $2.38 we reported for the year. Today, we are trading at roughly 9.3 times earnings on a trailing basis, so we need to see approximately 2 turns of multiple expansion, all else being equal, for a breakeven stock price. And on a DE basis, the initial dilution percentagewise would likely be lower given tax attributes created in the conversion. We as a management team, together with our board members, are carefully analyzing all the variables and considerations and we will keep you updated as we move forward. And with that, I will turn it over to Scott.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Thank you, Bill, and thanks, everybody, for joining our call today. Every quarter we throw a lot of numbers at you. There are cash outcomes, mark-to-market outcomes, two kinds of AUM, a balance sheet. There's a lot of information to digest. The volume of information runs the risk of being a distraction from the main messages we want you to take away. So we thought this quarter it would be a good idea to step back and tell you how we look at our business and what really matters. In that light, I want to spend a few minutes with you on how we think about KKR as investors and the largest owner of our own stock. First, please look at page 8 of the deck. Our AUM has been growing rapidly. As you can see on the slide, the average annual growth rate is 14% over the last four years and that's before the FS transaction. Even more exciting, our non-Private Equity businesses, which launched largely over the last decade, are beginning to scale with a 19% growth rate over the same period of time. And we see significant upside from here given the size of the end markets for these businesses and our relatively small market share today. Said simply, we are in a fast-growing industry with a lot of secular tailwinds and we are growing faster than the industry with a lot of potential ahead. Now flip to slide 9. Our management fees have been growing rapidly along with our AUM. And as you can see, our non-PE fees have grown even faster, again as our newer strategies have begun to scale. And remember, alongside of this growth we have also seen revenues from our Capital Markets business increased threefold from 2013 to 2017. Now please turn to slide 10. Strategically, we have focused not only on growing our assets but also increasing the duration of our assets. In particular, we have been focused on raising permanent capital and strategic partnership capital that has either recycling or a very long expected life of 15 years or more. As you can see on the slide, we have made good progress. In particular last year, when our assets with these attributes more than doubled from $11 billion to $28 billion. And if you include the impact of the FS transaction, $42 billion. Here again, we see significant potential to further scale this type of capital for the firm. And finally, the other metric we look at is book value per share on a marked basis. While we believe ENI is a fairly volatile metric and not aligned with how we run our business, we don't get paid on marks, we get paid on cash outcomes. We do believe it is important to look at how our investments are performing and how our mark-to-market book value per share is progressing. We had a nice improvement last year, with book value growing over $2 per unit or 17%. The bottom line is that as we look at these fundamentals we feel good about how our business is growing and where we can go from here. It's pretty simple when you step back from it all. Last year was a particularly good year for us. We used our model well, we continued to scale our businesses and we raised a lot of capital, much of it on a permanent and very long-term basis. The key for 2018 is to continue all three and we feel well-positioned to do just that. Operator, we are happy to open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Glenn Schorr, Evercore ISI.

Glenn Schorr - *Evercore ISI - Analyst*

Hi, thanks a lot. Just I appreciate all the thinking on the conversion thought process. The part -- my words, not yours -- it feels like you'd actually like to do it if you knew you'd get the 2 turns. I'm curious on how you finish the thought process now, because you clearly did a lot of work to analyze and I think the world is at a similar point now. How does the final decision get made?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Hey, Glenn, this is Bill. That final decision, once we decide what to do, will be communicated to you. We just thought it was important to let you know that we are seriously considering it and have actually talked to our board members and they are talking to advisors to make sure that we make the right decision.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

We'll have an update for you next call, Glenn, but we just wanted to share that we are working actively with the board and analyzing all the trade-offs.

Glenn Schorr - *Evercore ISI - Analyst*

Okay, fair. It was worth a shot. One quickie, on the $8.5 billion raise you mentioned that $3 billion is coming from KKR balance sheet. Is that a function of -- is that your best way to ensure better diversification of the balance sheet going forward? And for us analysts and unitholders, is it the same economics whether you are adding on pieces to the balance sheet one piece at a time or a slug into a fund?

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

I think in that last question, correct; you could think of it as, either way, we are making an investment in an underlying company, whether it's coming through a fund or, in this situation, alongside a couple of strategic partners in more of a bespoke partnership. So yes, we end up with the same kind of net exposure to the underlying investment, but maybe I could step back for a second. We have talked in the past a little bit about this core investment strategy and the background is that we see a lot of opportunities where we find great businesses that we like, that are stable. We'd like to own them for a long time, but it's a bit lower risk and a bit lower return than what would fit into a traditional fund that we would be normally managing. So historically we have passed on those opportunities. After doing that several times, we kind of asked ourselves why we didn't have a proper home for them, and so we created this strategy to be able to actually pursue those opportunities. So we will be making a large investment off the balance sheet, $3 billion incremental to the USI investment and then we found some like-minded partners, just two, to invest alongside us in this. And so that's where the $5.5 billion comes from that pays both a management fee and a carry. So implicitly the way you should think about it is it's an investment that we will be making of the balance sheet that will increase our equity exposure over time and we will get some incremental economics from the third-party capital. Importantly, perhaps in terms of the thought of monetizing content already here, we are adding no direct headcount in order to do this.

Glenn Schorr - *Evercore ISI - Analyst*

Thank you very much. I appreciate it.

Operator

Chris Harris, Wells Fargo.

Chris Harris - *Wells Fargo - Analyst*

Yes, thanks. Hey, guys. Why is the BDC structure viewed as a good way to grow private credit? I understand the tax benefits, but the vehicles themselves have had kind of a mixed track record with respect to performance and many of the public ones trade at discounts to book value. So if you can elaborate a little bit on that, it would be great.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Sure, Chris. It's Scott. Happy to do that. Look, I think the way that we look at it is having BDCs as part of our Private Credit platform makes a lot of sense. The underlying investments that we are making in that strategy tend not to have the duration that you've seen in a lot of our other asset classes. So a lot of the assets may have a two, three year type duration, maybe a bit longer. So as you know, we do have private funds that have their typical episodic nature. We raise them, we invest them, they run off. But what happens as a result of the relatively short duration of the assets, you end up with teams on the road raising capital continuously, virtually. So as we've thought about what's a proper funding structure over time for that underlying activity, having more permanency to the capital base makes a lot of sense to us to supplement the more episodic funds. The other thing I would say is with a permanent capital structure you can be more creative and kind of raise longer-term financing probably at a lower cost, all else equal. So that's another reason we think we can use that structure to drive better risk-adjusted net returns to investors over time. You are right; there at times when BDCs trade at a premium to book and there are times when they trade at a discount. The key, in our experience, is to generate the required dividend yield to investors to earn the right to have them trade at a premium, and that's our primary focus. But you will see us scaling both the permanent parts of the Private Credit funding model and the more temporary.

Bill Janetschek - *KKR & Co. L.P. - CFO*

And remember, Chris, from a KKR point of view, we are going to be the manager of these assets. So there is nothing better than to bring on permanent capital, because we will be managing these assets for those investors. And let's not forget, as we continue to grow our Capital Markets business, from an origination point of view that dovetails quite well into trying to grow our credit strategy.

Chris Harris - *Wells Fargo - Analyst*

Okay, thank you.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks, good morning. So I just wanted to come back to C Corp. If one of your partnership peers converted, re-rated higher, was added to some indexes -- I mean this might take a little bit of time, but I imagine this would really probably help your case to convert. Or are you guys really thinking about your decision here more in isolation?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Craig, this is Bill. Again, we are just asking you to stay tuned. We mentioned in prepared remarks that we are seriously considering this. We will take into account all variables going forward and we will report back certainly next quarter.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it. Okay, and then just coming to the capital markets business then. Really, really strong year. From a modeling perspective, what's the right way to think about the run rate here? And I'm looking at 2018, just with how much growth you've seen, but also thinking about where we are in the cycle and also thinking about future growth here.

Bill Janetschek - *KKR & Co. L.P. - CFO*

Well, on that point, it's tough to give you a run rate. The only thing that I could share, and I will let Scott chime in a little bit later, is that the model has expanded both from third-party investors as well as geographically. You can see that for 2017, and the $440 million number, roughly 23% of that came from third party. That was a nascent business as far as KCM was concerned a few years ago. In addition, when you look at that $440 million, 50% of it roughly came from outside the US. So we've had Capital Markets platform around for eight years. It's really hitting its stride. Everything in 2017 worked quite well. And so, I would say that if you look at 2010 through 2016, those would be the old numbers. As we continue to grow KKR as an enterprise and we do more things, I would expect that there would be a new number that you should model, but I'm not willing to share what number you should use.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Hey, Craig, it's a Scott. Just a couple of things I would add on. Some things have fundamentally changed in our business. One is the scale of the private credit effort that we have. So that business has been growing rapidly. A lot of that will show up in the third-party part of the business, but with our new partners at FS we now have even more capital to pursue large opportunities. So working together, we think this is a market where scale begets scale and we are one of the few parties that can actually underwrite $500 million plus debt underwritings for third parties, and you will be seeing us do that even more actively than we have in the past. That tends to also lead to syndication opportunities for us, because these larger deals tend to have a large hold component and a large syndication component. That was not really the case in our business three to five years ago, so we think there is a step function change in what we can do in the third-party side as we work together with FS. The second thing I would say is we are just using the model better across the firm. So last year, if you look at what really moved the needle, there was the normal activity in terms of our underlying portfolio companies doing financings, doing IPOs, doing secondaries. But then what you also had was new transactions. Last year in particular you had Japanese corporate carve-outs with big equity syndication and you had European infrastructure transactions with big equity syndications. We talked in the past about Q-Park, as an example -- as a prime example of one of those situations. And that was not the case a couple of years ago either. So our newer businesses are now using the capital markets model quite actively. It used to just be private equity, but we are now seeing that spread across the firm and, importantly, globally. So it is not something that we are going to predict in terms of a revenue level for 2018, but when you look at the chart on page 6, I do think you should keep those things in mind as to why we think we are no longer in this zone of $200 million in revenue a year but something quite a bit higher.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks, Scott. Very helpful.

Operator

Bill Katz, Citigroup.

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Bill Katz - *Citigroup Inc. - Analyst*

Okay. Thank you very much for taking the questions and I appreciate the brevity of your remarks, but very good stuff. So first question is just in terms of payout policy. Just given your growth, diversification, increasing growth coming from more permanent, longer-dated vehicles, wondering how we should be thinking about the $0.17 quarterly dividend. And then how might that change as you're talking through the C Corp. conversion? And I will obviously wait until second quarter to get that as well, but just thinking what might be the shift there?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Good question, Bill, and obviously this goes hand-in-hand. Typically what we would have done if we weren't contemplating going C Corp. is probably on this call we would give you a new number for 2018. But because they go hand-in-hand, once we decide what we are going to do from a corporate structure, we will then communicate what the new distribution policy or the new dividend number will be.

Bill Katz - *Citigroup Inc. - Analyst*

Okay, that's helpful. Then just as a follow-up, I appreciate the momentum of the franchise. Maybe on a bit more concrete basis as you think out for 2018, 2019, where do you see the greatest opportunity to gather assets, apart from leveraging Franklin Square?

Craig Larson - *KKR & Co. L.P. - Managing Director of IR*

Bill, it's Craig. Why don't I start with that? I think in terms of episodic funds, if we look in Private Markets the list would include our Infrastructure, European Private Equity and Energy Income and Growth strategies, and in Public Markets would include lending strategies in the US and Europe. And this would be in addition to areas where we look to raise capital on a more continuous basis, so that would include the CLO business, the leverage credit platforms in the US and Europe, and you mentioned the BDCs as well as the hedge fund partnerships. And of course any new strategic partnership activity would be incremental to this. From a management fee standpoint, it's worth remembering, back to page 4, that we have about $20 billion of capital that's in our AUM that pays management fees on an as invested basis, so that will transition as we make investments and it will also begin generating management fees as that investment occurs. And then you mentioned FS correctly, and we'll see a $14 billion increase once that -- on that pending transaction in fee-paying in the $120 million of revenues associated with those assets.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Yes, just a couple of thoughts to add to that, Bill. We remain in a robust fundraising environment. If you really just step way back from the quarter or the year, over the last four years we've raised over $100 billion, and that was during a period of time, if you think about it, where we had a lot of young businesses: Fund I, Fund II type strategies. And also while we were growing our investor base by investing in our sales team. So suffice it to say we feel good about where we could go from here as we keep generating investment performance.

Bill Katz - *Citigroup Inc. - Analyst*

Okay, thank you very much for taking the questions.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Great, thanks very much. Just one on the C Corp. I appreciate the review. Is it technically possible for you to do that for 2018, or even if your decision decides to commit to that, is it more like a -- would have to be like a 2019 and forward event?

Bill Janetschek - *KKR & Co. L.P. - CFO*

From a technical point of view, if we decided to do it, it would happen and could happen in 2018.

Brian Bedell - *Deutsche Bank - Analyst*

Okay, great. And then maybe just broadly on the Capital Markets strategy. Thanks for all that color, Scott, on that. That was helpful. As you think about -- your business has definitely evolved pretty substantially in a lot of different ways over the last few years, including the Capital Markets. And as you think about evolving it over the next say, three to five years, how should we be thinking about the growth of that Capital Markets business in terms of how it will compete with the investment banks? Given 23% is now third party, could that third-party component of that business say, three to five years out, be half or more and compete -- be much more in the league with the traditional investment banks?

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

It's a good question, Brian. I'd say, first off, we are not trying to compete with the investment banks. They've got a lot more resources and a lot more capital than we do. What we are really focused on is having our Capital Markets business help facilitate the activities of our investment business and help drive returns in our investment business. So when we are looking at a new transaction, we will speak for equity and debt and help drive the syndication of those so that ends up in the right hands and we can maximize economics and control for the firm. It also allows us to do transactions we otherwise could not do. The example last year of the European infrastructure transactions that were two or three (technical difficulty) in a row transactions, when our entire fund size was $3 billion. So we're able to actually complete transactions and control companies by using that model. So, for the most part, our activities are focused around facilitating the investment business of the firm. It also allows us to grow those businesses faster. So if you think about it, you had a $3 billion infrastructure fund at II, and if you can actually show that you can do multiple large transactions, that you need a lot more capital than $3 billion, it allows you to raise a much larger fund III potentially because you have proof of concept that you can put that money to work. So it helps drive the growth of those businesses through the activities that we're able to conduct. And then also, frankly, from the standpoint of driving returns we can control the boards of these companies and it's much easier when a CEO has one partner to talk to as opposed to multiple. We are, though, also spending time working with third parties but a lot of that third-party activity is helping to drive flow for our Private Credit businesses and other investing businesses. So a lot of the activity, especially in 2017, was with third-party financial sponsors. So we will help finance their transactions, and the way this works is we try to give them the best advice in terms of what we would do if we were them, and we will source an opportunity if they want to work with us. And then our credit teams will have the opportunity to decide whether they want to invest in that sourced opportunity. We are big believers that the more that we have in terms of pipeline and the more ideas we have flying into the top of the funnel, the better the investment opportunities we will see over time. Sometimes we will hold a piece of those credits we originate and sometimes we won't and we will syndicate 100% to third parties. So our activities are really more focused around those areas as opposed to try to have a much broader suite of activities like the investment banks do. That's not our aspiration. But I think what you will see is, as we scale real estate, infrastructure, energy, credit globally, private equity globally, our other efforts that we are going to build over time, you will see Capital Markets a big part of those efforts as we continue to scale and do larger transactions and in effect punch above our weight, which should help us grow AUM faster.

Brian Bedell - *Deutsche Bank - Analyst*

Great, that's super helpful. I will get back in the queue for a follow-up. Thanks.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Thank you and good morning, everyone. Sorry to beat the C Corp. horse again, but just kind of curious. Maybe Bill, as part of your internal conversations about this, is there any thought or benefit that you guys see to changing over to a method 1 accounting as part of any potential corporate structure change?

Bill Janetschek - *KKR & Co. L.P. - CFO*

No, Rob. It's interesting and it's a good point. We actually kicked that around. So again, if we decide to change our corporate structure, we are thinking about a lot of things as we are going to be reaching out to potentially new investors. So that would address reporting. And one of the things that we did take a look at is whether or not method 1 as opposed to method 2 was what I would say less volatile. And suffice to say that the decision was made that we are going to continue to use method 2, because that really shows the true economics and the true mark-to-market and the real reality of how our business is performing.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, great. And then maybe shifting gears, I'm just interested in maybe getting an update or your thoughts on -- you have this joint venture with FS coming up soon, but beyond the BDCs, more broadly, could you maybe give us a sense of what other opportunities you see with FS and how that's kind of dovetailing or maybe spearheading some of your initiatives into say, the high net worth channel or the retail channel? Just kind of where you envision that heading.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Sure, happy to take that. So in terms of the broader retail high net worth question, we've really got several different approaches. The first of which, we have a team inside the firm that spends all their time talking to family offices and high net worth individuals. So we've got the direct approach, where we are working with a number of families around the world and they are investing with us across a variety of different strategies and parts of what we do. We also have a long list of relationships in the platform channel. So think of this as banks, high net worth third-party platforms where we sell our product through their sales force. And so that's also been growing quite rapidly. So there's a direct, there's platform, and both of those are now being conducted on a global basis. And then we will also work with partners. We have a strong penchant here to only have inside KKR what needs to be inside KKR and we think there's others that are great at what they do. FS is a good example of that. They have built out a lot of capabilities and have a few hundred people that spend their time focused on being best in class in administering, running and selling these more permanent capital structures to an audience of hundreds of thousands of retail investors. They are better at that than we could ever hope to be. And so we are partnering with them on the existing what will now be a combined six BDC vehicles, and we are talking about other products we can create together where we can marry our two capabilities and find a path to their channels in something that will be differentiated. So more to come on that, but we do think that's a growth opportunity for us. I would say more broadly we went from a standing start in this retail high net worth channel probably five, six years ago, and it now is probably 10% to 20% of the money we raise in any given quarter is coming from that. And with FS I expect that will go up.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Great, thanks for taking my questions.

Operator

Patrick Davitt, Autonomous Research.

Patrick Davitt - *Autonomous Research - Analyst*

Good morning, guys. One more on the C Corp. and hopefully that will be the last one. The other comps seem to be pretty concerned about the current shareholders and felt like their current shareholders actually like the structure, which you don't seem to be as concerned about. Is there something different about the makeup or opinion of your shareholder base that maybe is thinking about this trade-off differently?

Craig Larson - *KKR & Co. L.P. - Managing Director of IR*

Patrick, it's Craig. I guess I don't have a point of view as it relates to our peers and the nature of their shareholder base. But I think, suffice to say that this is a topic that has been written about by you and your peers for some time now, and I've never thought of our shareholders as being shy in sharing their points of view with us. So I don't -- but in terms of whether there is a difference, tough to comment on. But of course we are taking into account all factors as we think through a potential conversion.

Patrick Davitt - *Autonomous Research - Analyst*

Okay. Thanks. And just as my quick follow-up, could you give us an idea of how much of the $43 million National Vision shares are actually in the funds? Because it's a pretty big needle-mover now given how much it was up.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Virtually all.

Craig Larson - *KKR & Co. L.P. - Managing Director of IR*

Yes, I think of that as a fund investment, Patrick.

Patrick Davitt - *Autonomous Research - Analyst*

So there's not a lot of co-invest from third parties in that $43 million number?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Not that I'm aware of, but honestly I don't have that information in front. But when you think about KKR's ownership, to be clear, National Vision is held in a fund, not on the balance sheet. (multiple speakers) if that is what you are driving at.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

There's a GP commitment to that fund, but there's no co-invest in addition to that.

Patrick Davitt - *Autonomous Research - Analyst*

Great. Thanks.

Operator

Gerald O'Hara, Jefferies.

Gerald O'Hara - *Jefferies LLC - Analyst*

Great, thanks. Perhaps pivoting a little bit in the other direction from the C Corp. conversation, Bill, maybe you could talk a little bit about how the change in corporate tax could impact your earnings? Recognizing obviously revenue mix is going to be a factor, but for the next 12 months or looking out over the next couple of years in the current structure.

Bill Janetschek - *KKR & Co. L.P. - CFO*

Well, in the current structure, when you take a look at what we historically reported, our effective tax rate ranges anywhere between 5% and 10%, and that was with a corporate rate of roughly 35%. Under the current structure, if we were to remain a PTP, because the corporate rate went from 35% down to 21%, that 5% to 10% would be discounted from a corporate level and so that would probably then step down to anywhere in between 3% and 8%.

Gerald O'Hara - *Jefferies LLC - Analyst*

Okay, helpful. And maybe as a follow up just with respect to the balance sheet composition, just looking quarter over quarter, cash looks like it's down a little bit; energy up; other up significantly. And apologies if I missed this or just didn't catch it, but can you perhaps talk a little bit about what's really driving that other quarter-over-quarter for up to over $700 million, if I have my numbers here right?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Sure. And specifically we are talking about page 12, the other.

Gerald O'Hara - *Jefferies LLC - Analyst*

That's correct.

Bill Janetschek - *KKR & Co. L.P. - CFO*

And what's in that number is liquid securities that don't actually fall naturally into any category up above. So suffice to say that they are all liquid securities and that this number moves up from time to time as we try to actively manage our portfolio so it wouldn't be sitting in cash, but again, in liquid securities. And I would expect that number to be somewhat down next quarter based upon the activity we are seeing in the first quarter.

Gerald O'Hara - *Jefferies LLC - Analyst*

Okay, thank you for taking my questions.

Operator

Andrew Disdier, Sandler O'Neill.

Andrew Disdier - *Sandler O'Neill & Partners - Analyst*

Hey, good morning, gentlemen. So to piggyback on Patrick's question before, just thinking about some of the visible fee activity thus far in 2018, would you be able to provide any comments or detail around realization activity you've seen this quarter? And thinking from a closed transaction perspective and then also announced but not yet closed -- so Pets, Aricent, PetVet, and then Unilever spreads on the capital market side, kind of --

Bill Janetschek - *KKR & Co. L.P. - CFO*

I will bifurcate that question into two separate answers. One has to do with fee income and the other really has to do for 2018, what sort of performance income and what sort of balance sheet activity has taken place. So as we stand here today, assuming all the investments that have been announced close, the cash generation from an income point of view is going to be roughly $175 million. Away from that, we generally don't talk about fee income. If you look at our fee-related earnings, you could assume that certainly the management fees are on somewhat of a run rate basis. More specifically to your question, embedded in that fee income is capital markets activities. We are not going to give you a number quarter to quarter, somewhere intra-quarter, what the final quarter number would be, other than to just say that the capital markets arm of the KKR enterprise is off to a very nice start, like the deployment and the monetization so far to date.

Andrew Disdier - *Sandler O'Neill & Partners - Analyst*

Got it, understood. And then on the $20 billion of capital commitments and the associated 100 basis point weighted average fee, would you be able to stratify that between private and public, and then the associated fee rates with each of the buckets? And then, if I'm correct, that's moved up from $14.5 billion last quarter, so I guess how much is new money versus the continuous build?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Well, the number continues to build. And keep in mind we have that shadow AUM that turns into fee-paying AUM as we deploy it, and then we raise more AUM. But very specifically to your question, of the $20 billion that Craig mentioned earlier, $14 billion is in Private Markets and the other $6 billion is in Public Markets. And when you think about that 100 basis points, in both of those categories that 100 basis points is the same. So a lot of the capital in Public Markets is long-dated, locked up capital where we receive a management fee and performance income. And again, whether or not it's in Private Markets or Public Markets, it's roughly about 100 basis points.

Andrew Disdier - *Sandler O'Neill & Partners - Analyst*

Got it. Thanks very much.

Operator

Michael Carrier, Bank of America Merrill Lynch.

Mike Needham - *Bank of America Merrill Lynch - Analyst*

Hey, good morning. This is Mike Needham in for Mike Carrier. First, just on the Core Investment strategy, can you provide a few more details on the $8.5 billion, or the management fees and carry rate on the third-party stuff? And then, like, return targets and when fees ultimately show?

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Sure, Mike, it's Scott. Let's break it down. So first, you've got -- of the $8.5 billion, $3 billion is coming from our balance sheet, so third-party capital is $5.5 billion. Return expectations on that would be in the teens. So not kind of high teens to 20 plus you'd expect in PE, more like mid-teens, give or take, in terms of return profile. The way we think about it is if the balance sheet investment generates mid-teens, because obviously we're not burdened by the management fees and carry ourselves, and then we can generate economics on the third-party capital, we think we can blend that mid-teens to a 20% or so total ROE figure on the $3 billion commitment to the strategy. The third-party economics we are not going to share publicly but they are in line with what you would normally see in a fund construct for core funds with some innovations that we've built in that we are not going to share.

Mike Needham - *Bank of America Merrill Lynch - Analyst*

Okay. All right, that sounds good. The only other one I had was on incentive fees for public markets. They were it seemed like a little bit high at $65 million. Is that unusually high or does it just kind of reflect the progress you've made in that business, like a reasonably good year for the hedge funds? So is like that $65 million kind of in line with what you expect going forward?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Michael, this is Bill. As we said historically, when you think about the strategic partnerships that we have in certain hedge funds, the incentive fees typically land in either June, with PAAMCO Prisma capital that we have invested with them, and all of the other hedge funds come in in December. So what you will actually see is, really from an incentive fee point of view, no activity in the first and third quarter, some activity again just around PAAMCO Prisma in the second quarter, with all the other strategic partnerships, and there are five in total, and that's what generated that $60 million plus this quarter.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Yes, I'd say the standout, Marshall Wace had a particularly good year.

Mike Needham - *Bank of America Merrill Lynch - Analyst*

Okay, thanks.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs Inc. - Analyst*

Hey, good morning, everybody. I wanted to ask you guys around capital management, just to follow up on one of the earlier questions. So I hear you on the dividend, obviously kind of depending on C Corp. But I guess if I look at the exit activity, clearly picking up. Accrued carry I think is up 10-ish percent quarter-over-quarter. Some of the larger funds, whether it is NAXI or Asia II, are both doing extremely well. So I guess as we think about the fact that we are still kind of early in the realization cycle for you guys, anything new you are thinking about in terms of retaining capital on balance sheet or returning it back to shareholders? Whether it's buybacks or more sort of a systematic special, or is that all sort of on the table pending C Corp. conversion?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Well, it's on the table pending C Corp. conversion, but when you think about the way we manage our business is a lot different than the other alternative asset managers. And we made that conscious decision back in 2015, to pay out a regular way distribution that was predictable and taking the excess to do two things. One is to continue to put that capital back on our balance sheet and compound it, and from time to time use some of that capital in the way of buybacks. So I don't think anything has changed and probably won't change if we go to a C Corp. but that's --

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Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

If we go C Corp.

Bill Janetschek - *KKR & Co. L.P. - CFO*

Right.

Alex Blostein - *Goldman Sachs Inc. - Analyst*

Yes, all clear. Bill, another quick follow-up for you. I think I heard you say the impact from a potential C Corp. conversion on DE would be lower than it would be obviously under ENI. Sounds like some of the benefits, some of the blockers, will retain -- you guys will retain those if you were to convert. Any sense of what the if-converted DE tax rate would be, since that's obviously going to dictate the actual cash flows of the business?

Bill Janetschek - *KKR & Co. L.P. - CFO*

No, Alex, that's just too hard to predict. The only point we mentioned when we were talking about TDE, actually that tax rate actually going a little lower, is that if we were to become a C Corp. the assets would get stepped-up. And as we sold those assets over the first couple of years, the cash taxes that would be due would be far lower than the amount of taxes that we would accrue on appreciation in the portfolio vis-à-vis ENI. Make sense?

Alex Blostein - *Goldman Sachs Inc. - Analyst*

Yes. Thanks so much.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Hi, good morning. Thanks for taking the question. I just wanted to ask about the interest income and dividends in the quarter. They just looked a little bit more elevated at $90 million, a little above the pace that we've seen in recent quarters. Just curious what drove that and how we should think about a good run rate pace going forward from here?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Hey, Michael. What I would use as a run rate is anywhere in between $65 million to $85 million, only for the fact that there are certain anomalies in each and every quarter. And you are right, what ended up happening in this particular quarter you saw an elevation on the dividend. We had a couple of recaps that were done in the funds and those economics flowed through to us vis-à-vis our carry as dividend income. And likewise on the balance sheet, to the extent that we have our ownership interest in the fund or we might have a co-invest, it showed up in that number. But again, I would say the run rate number should again be anywhere in between that $65 million to $85 million.

Michael Cyprys - *Morgan Stanley - Analyst*

Got it. Thanks for that. And just as a quick follow-up here, just on the balance sheet this quarter, can you talk about how much was deployed and monetized from the balance sheet? Just trying to get a better understanding in terms of the moving pieces all around the balance sheet. Thanks.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Sure. In the quarter itself I don't think there is anything that I would call out as particularly abnormal activity. We had normal drawdowns from our underlying GP commitments to funds and then normal monetizations from the standpoint of what we were invested in alongside the funds. So there is nothing that I would particularly call out, and actually if you look at capital deployed and realizations, they're pretty equivalent. So we kind of sold as much as we invested in the quarter.

Bill Janetschek - *KKR & Co. L.P. - CFO*

Right. And to drill down on the number a little bit more, being that you asked, on page 8 where you see TDE, the realized gains off the balance sheet were roughly about $30 million. And when you take a look at the increase of the assets from a deployment point of view, everything is up quite modestly, other than what was referenced a little bit earlier in that other in the total investment, that $700 million. That's where you saw an uptick of roughly about $250 million. But if you look at Private Equity, you look at Real Assets, you look at Credit, they are all up quite modestly as far as net increase in those strategies quarter-over-quarter.

Michael Cyprys - *Morgan Stanley - Analyst*

Great, thank you.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Great, thanks for taking my follow-up. Some of this was answered. It was around the Core Investment strategy. I guess more broadly, just thinking about the pace of growth of fee-paying AUM, first, if you could comment on sort of a range or a view of that $20 billion of commitments turning on and generating fees over the next couple of years. And then a little bit more broadly, the potential long-term growth outlook for the strategic partnership strategy and the core investment strategy. And maybe just a little bit of differentiation of how you think about those two different areas separately?

Bill Janetschek - *KKR & Co. L.P. - CFO*

Hey, Brian, this is Bill. I will take the first one then I will pass the second one off to Scott. When you look at the $20 billion of capital commitment that's yet to earn fees, away from the core -- and Scott had mentioned earlier the breakdown is $5.5 billion of capital was actually raised and we are going to get paid a fee as that capital is deployed. So set that aside, we are talking about the remaining $15 billion, again, in Private Markets and Public Markets. And we would assume that capital, again, at roughly 100 basis points, will get deployed anywhere between years two, three and four.

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

I would say on the second question, we do look at them a bit differently. So when we say strategic investor partnerships, what we tend to be talking about there are very long-term partnerships with recycling, so that we have an ability to recycle capital, plus a percentage of the profits for an extended period of time. And the expected duration of those partnerships is somewhere in the 20 to 30 year range, beginning to end. The underlying strategies that those partnerships invest in are usually broad-based across the firm and there's some mix of private equity, real assets and credit. So that's where the strategic partnership is in our definition. And obviously having the 20 to 30 year visibility on capital that can scale as we perform is particularly powerful for us. The core strategy is something that's a bit distinct. That is that long-term investment that I mentioned that we used to pass on, that we now have an ability to pursue. We happened to create that strategy with two close strategic partners of the firm but it's very focused on that longer-term investment. It does not have the recycling aspect but does have an expected hold period that can be 15 years or more. And to be clear, there is the $8.5 billion that we're talking about today but then we also have our partnership with the Caisse where we made the investment in USI, which was $1 billion in aggregate between us and them. So if you put it all together it's $9.5 billion for core, but it is a slightly distinct strategy from the strategic partnerships which have recycling, core less so. It's just longer term holds. Is that clear?

Brian Bedell - *Deutsche Bank - Analyst*

Yes, that's extremely helpful. Just maybe the long-term growth prospect of this, as you think about this type of business and the attractiveness of this structure, say, again over the next three years, is it something that you think you can enter in with more partners and look to extend that substantially?

Scott Nuttall - *KKR & Co. L.P. - Co-President and Co-COO*

Yes, I'd say a slightly different answer for each. I would say core, we are going to be deploying that capital over the next three to five years and before it probably makes sense to create more dedicated capital. We will see how the deployment pace looks. Not to say we wouldn't do other things alongside or expand that, but the base case expectation is that money will get in invested over the next several years and then we will figure out where to go from there and hopefully scale the strategy from that point forward. Strategic partnerships is something that we want to continue to scale on a more continuous basis. They take a long time. They are highly complex. They tend to be several billion dollars in size, and so at any given moment we are working on several of those with close partners of the firm. So that's much more continuous in nature versus core.

Brian Bedell - *Deutsche Bank - Analyst*

That's great. That's helpful. Thank you so much.

Operator

That concludes our question-and-answer session for today. I would like to turn the call back over to Craig Larson for closing remarks.

Craig Larson - *KKR & Co. L.P. - Managing Director of IR*

Thank you, everybody. We look forward to giving you an update next quarter.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may now disconnect. Everyone have a great day.

Editor

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